

Rhodes ANNUAL
REPORT

CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE

1963

Rhodes

DIRECTORS AND OFFICERS:

HERBERT I. DUNN
Partner, Schwabacher & Company

J. C. ERNST
*Vice President and Treasurer
Acme Financial Corporation*

JOHN J. GOLDBERG
Assistant Secretary

O. JAMES MAUEL

ELLIOTT McALLISTER
Director, The Bank of California N.A.

LOUIS J. MELICEK
General Manager, Rhodes, Portland

JOHN J. REILLY
Chairman of the Board

JOHN J. REILLY, JR.
President

LINDSAY L. RUSCH
Secretary and Treasurer

F. A. WICKETT

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Price Waterhouse & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 28, 1964, 11:00 o'clock a.m.
Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California



TO OUR SHAREHOLDERS



LAST YEAR the Company's sales reached another new high of \$56,948,324, an increase of 14%. Profit declined to \$1.49 per share from the previous year's earnings of \$1.72, due entirely to the costs incurred in the major program of new store additions. These expenses were partially offset by the investment tax credit arising from the acquisition of the fixtures and equipment for the new stores.

The nine stores that were in operation at the beginning of 1963 continued to gain in sales, and the profit from these stores in 1963 increased by 20%.

The past year witnessed very large additions to the physical plants of your Company. New stores were opened in Phoenix, Arizona and Palo Alto, California. A second floor was added to the Southgate store in Sacramento. Construction of the new store in San Antonio, Texas was completed and the store opened shortly after the close of the fiscal year. All told, approximately 455,000 square feet of floor space were added to our capacity.

The substantial investment in new stores of the past year will reflect in future sales and profits. We will have pre-opening costs in the first quarter of 1964 for the

San Antonio store, but no other store openings are scheduled for this year. As we go further into 1964 we expect the Company's profit to resume its normal rate. With a broader base of sales and the opportunity to staff from our own organization we would expect future expansion to have less effect on our profit.

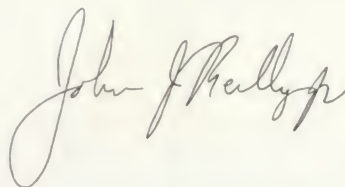
In 1963 your Company signed leases for new stores in Albuquerque, New Mexico and Reno, Nevada. The Albuquerque store will be located in the Coronado Shopping Center four miles northeast of downtown—an area of high population and traffic density. The Reno store will be in the Park Lane Center one mile south of downtown Reno, strategically placed to serve the expanding Reno-Lake Tahoe area. Each store will have 116,000 square feet of floor space. When these units, along with the new store in West Portland, Oregon are completed, Rhodes will have fifteen stores in seven western and southwestern states.

During the year your Company paid four regular quarterly dividends of 25 cents for a total of \$701,882. The retained earnings account totalled \$14,091,651 on January 31, 1964. Stockholders' equity equalled \$23.63 per share.

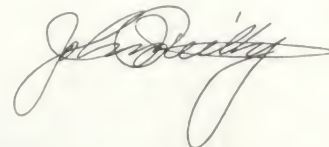
To finance its continuing expansion, your Company in October sold 30,000 shares of \$100 par 5% preferred stock to an institutional investor. The stock is to be retired over a period of fifteen years by sinking fund payments beginning June 1, 1969. The increase in the loan with Prudential Insurance Company of America, announced last year, was not used in 1963, but on February 28, 1964 in keeping with the provision of the agreement, this amount was taken into our working capital. We also have been successful in working out favorable terms for leasing fixtures in some of our stores.

We welcome to our organization our many new employees in the new locations and express our warmest thanks to all of our people for their fine efforts in this most active year.

FOR THE BOARD OF DIRECTORS:



JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN

PRESENTING—THE NEW STORES

The past twelve months saw the completion and opening of four store units in Rhodes expansion program. The stores are located in fast growing suburban areas, where they are major tenants in large shopping centers.



RHODES PHOENIX

This bright, colorful store dominates the Camelback Shopping Center at 20th and Camelback Road in northeast Phoenix, on the road to Scottsdale. Camelback Road is rapidly becoming the leading fashion street in Phoenix, the city enjoying the highest rate of growth in the nation. Design and decor of Rhodes Phoenix are keyed to the Arizona way of life.



RHODES PALO ALTO

In October, Rhodes opened its first store on the west side of San Francisco Bay, in the San Antonio Shopping Center. The center is located at one of the busiest intersections on the San Francisco Peninsula, where the cities of Palo Alto, Mountain View and Los Altos meet. This is an area of attractive suburban homes in the heart of the great aerospace, electronics and advanced research complex at the southern end of the Peninsula.



RHODES SOUTHGATE

The population of Sacramento and its satellite communities has almost doubled in the ten years since Rhodes opened its first suburban store in Country Club Centre. This remarkable growth led us to double the size of our store in Southgate Shopping Center in 1963. The addition of a second floor makes Rhodes Southgate the largest suburban store in our system.



RHODES SAN ANTONIO

On February 14, 1964, Rhodes entered Texas with the opening of a new store in Wonderland Shopping City, San Antonio. The center is in the northwest suburbs of the city, on the axis of its maximum growth. Glass paneled escalators and elevators, which carry customers from the parking area beneath the store to the shopping floors above, are among the features that make Rhodes San Antonio unique among all our stores.

RHODES BALANCE SHEET

ASSETS

January 31
1964

January 31
1963

CURRENT ASSETS:

Cash	\$ 852,266	\$ 493,388
Short-term securities, at cost (approximate market)		997,278
Accounts receivable, less allowance for doubtful accounts— 1964, \$495,000; 1963, \$433,000	13,026,294	10,804,115
Merchandise inventories—on hand, at lower of cost or market as determined by the retail inventory method; in transit, at cost	12,176,226	10,019,604
	<u>26,054,786</u>	<u>22,314,385</u>

OTHER ASSETS AND DEFERRED CHARGES:

Unexpired insurance, prepaid taxes and other deferred expenses	518,433	379,870
Miscellaneous receivables, deposits, etc.	540,308	565,349
	<u>1,058,741</u>	<u>945,219</u>

PROPERTIES, at cost:

Land	129,991	129,991
Furniture, fixtures, equipment, etc.	8,470,172	7,536,563
Leasehold improvements	4,296,988	4,206,068
Accumulated depreciation and amortization	(8,325,014)	(7,691,764)
	<u>4,572,137</u>	<u>4,180,858</u>
	<u>\$31,685,664</u>	<u>\$27,440,462</u>

LIABILITIESJanuary 31
1964January 31
1963**CURRENT LIABILITIES:**

Accounts payable	\$ 2,991,499	\$ 2,594,877
Payrolls, taxes, and other accrued liabilities	1,179,300	975,819
Current instalment on notes payable		440,000
Federal taxes on income, estimated	670,135	16,985
	<u>4,840,934</u>	<u>4,027,681</u>

FEDERAL INCOME TAXES DEFERRED TO FUTURE YEARS

(Note 1)	<u>1,250,000</u>	<u>1,200,000</u>
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LONG-TERM NOTES PAYABLE (Note 2)	<u>6,000,000</u>	<u>6,000,000</u>
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STOCKHOLDERS' EQUITY:

Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Note 3)	3,000,000	
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 705,938 issued shares of which 3,799 shares were held in Treasury on January 31, 1964 (Notes 3 and 4)	176,485	176,157
Capital in excess of par value of common stock (Note 4)	2,326,594	2,292,586
Retained earnings, per accompanying statement (Note 3)	14,091,651	13,744,038
	<u>19,594,730</u>	<u>16,212,781</u>
	<u>\$31,685,664</u>	<u>\$27,440,462</u>

RHODES STATEMENT OF INCOME

	Year ended January 31 1964	Year ended January 31 1963
Net sales including leased departments	\$56,948,324	\$50,044,477
Cost of sales, operating and administrative expenses (exclusive of those shown below) less credit service charges	54,132,151	46,407,557
Depreciation and amortization	633,250	785,054
Contributions under employee benefit plans	173,868	166,767
Interest expense	290,191	410,820
	<u>55,229,460</u>	<u>47,770,198</u>
	1,718,864	2,274,279
Other income and credits	70,631	188,439
Income before federal income taxes	1,789,495	2,462,718
Provision for estimated federal income taxes, including \$50,000 in 1963 and \$1,200,000 in 1962 deferred to future years (Note 1)	715,000	1,260,000
Net income for the year	<u>\$ 1,074,495</u>	<u>\$ 1,202,718</u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$13,744,038	\$13,357,974
Net income for the year	1,074,495	1,202,718
	<u>14,818,533</u>	<u>14,560,692</u>
Less:		
Cash dividends paid:		
Preferred stock, \$.83 per share	25,000	
Common stock, \$1.00 per share	701,882	700,221
Cost of treasury stock purchased		116,433
Retained earnings at end of year (Note 3)	<u>\$14,091,651</u>	<u>\$13,744,038</u>

Notes to Financial Statements, January 31, 1964

NOTE 1: ■ The Company adopted the instalment method of reporting income beginning with the year ended January 31, 1963. Under this method, income taxes are payable on instalment sales as the accounts are collected rather than at the time sales are made to customers. For financial statement purposes the Company will continue to report income from sales at the time they are made and therefore provision has been made for the income taxes deferred to future years.

The provision for federal income taxes for the year ended January 31, 1964, has been reduced by \$235,000, representing the investment tax credit of 7% of certain property leased or purchased during the year as provided by the Revenue Acts of 1962 and 1964. The investment tax credit for the prior year was not material.

NOTE 2: ■ In February 1964 the Company, pursuant to an earlier agreement with an insurance company, replaced the existing \$6,000,000, 4¼% notes with a 5% note in the amount of \$9,000,000. The note is payable in annual instalments of \$500,000 commencing March 1, 1965 with the balance payable on March 1, 1981.

NOTE 3: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, such amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The Company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978 and \$300,000 for years 1979-1983 less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof. In addition, certain restrictions are placed on the payment of cash dividends; retained earnings at January 31, 1964 not so restricted were \$1,130,000.

The purchaser of the Series A Preferred was granted a warrant which expires June 1, 1973 entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1964, 20,000 unissued common shares were reserved for this purpose.

NOTE 4: ■ During the year 1,750 shares of treasury stock were sold to 3 employees at \$18.50 per share, payable over a period of five years, with interest on the unpaid balances. The proceeds from these sales, \$32,375, were added to capital in excess of par value; cancellations of prior years' sales in the amount of \$19,818 were deducted from capital in excess of par value.

Under the Company's incentive stock option plan options to purchase the Company's common stock are granted to executives and key employees. The following table summarizes the activity under the Company's stock option plan.

	SHARES	
	Options outstanding	Reserved for options
Balance, January 31, 1963	16,600	16,500
Options exercised at \$16.625 a share	(1,310)	
Options granted at \$17.93 a share	4,500	(4,500)
Balance, January 31, 1964	<u>19,790</u>	<u>12,000</u>

Outstanding options granted in years 1959 through 1963 were at prices ranging from \$16.625 to \$19.25 per share. In general the options are exercisable ratably over a four-year period commencing two years from date of grant.

NOTE 5: ■ The Company occupies its eleven stores under leases which expire at various dates from 1972 to 1994. The leases provide for rentals based on sales with a guaranteed minimum and in certain instances require payment of property taxes, insurance and certain other expenses, which in general may be deducted from rents paid in excess of the minimum. The terms of leases covering 8 stores may be extended at the option of the Company. In addition, fixtures in two stores are leased for ten year periods. Total rentals of \$2,190,000 were charged to cost of sales and operating expenses in 1963. The minimum annual rental commitments for 1964 are \$2,250,000.

The Company has signed leases for locations in West Portland, Oregon; Albuquerque, New Mexico and Reno, Nevada, which will become effective upon completion of the buildings. In addition, the lease for the San Antonio, Texas store became effective in February 1964.

Opinion of Independent Accountants

To the Board of Directors and Stockholders of Rhodes Western

In our opinion, the accompanying statements present fairly the financial position of Rhodes Western at January 31, 1964, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

San Francisco, March 13, 1964

PRICE WATERHOUSE & CO.

<i>1960</i>	<i>1959</i>	<i>1958</i>	<i>1957</i>	<i>1956</i>	<i>1955</i>
\$46,069,861	\$40,704,446	\$41,021,658	\$37,726,906	\$34,797,385	\$31,858,117
3,201,566	2,475,662	2,100,990	2,721,542	2,493,829	2,272,069
1,675,000	1,270,000	1,085,000	1,405,000	1,300,000	1,180,700
1,526,566	1,205,662	1,015,990	1,316,542	1,193,829	1,091,369
2.19	1.72	1.45	1.88	1.71	1.59
595,321	556,816	699,872	559,622	620,603	548,784
.85	.80	1.00	.80	.90	.80
931,245	648,846	316,118	756,920	573,226	542,585
1,197,153	543,427	965,169	1,007,337	224,590	728,039
751,554	625,280	624,438	417,545	378,872	267,724
9,542,428	8,944,980	8,835,662	9,181,894	7,197,791	5,624,746
7,745,446	6,713,753	6,172,264	6,001,386	4,880,709	4,663,827
16,787,803	16,823,246	14,471,617	12,479,145	10,160,223	7,822,006
4,771,203	4,322,557	4,450,695	4,118,654	3,523,973	3,672,792
27,137,693	26,428,226	23,048,074	21,235,724	18,086,283	15,610,090
7,320,000	7,760,000	6,200,000	4,200,000	2,000,000	400,000
14,786,624	13,922,368	13,255,804	12,958,242	12,185,826	11,477,900
21.23	19.89	18.97	18.51	17.44	16.73
2,042	2,013	2,038	1,959	1,919	1,810
2,069	1,868	1,863	1,677	1,597	1,608
8	7	7	5	5	4

RHODES TEN YEAR SUMMARY OF OPERATIONS

Years Ended January 31

1964

1963

1962

1961

Net sales	\$56,948,324	\$50,044,477	\$46,035,273	\$45,516,45
Income before federal income taxes	1,789,495	2,462,718	2,295,074	2,410,89
Federal income taxes	715,000	1,260,000	1,190,000	1,250,00
Net income	1,074,495	1,202,718	1,105,074	1,160,89
Per common share	1.49	1.72	1.58	1.6
Dividends paid	701,882	700,221	699,808	700,71
Per common share	1.00	1.00	1.00	1.0
Current income retained	347,613	502,497	405,266	460,18
Additions to properties	1,024,529	425,961	506,198	901,83
Depreciation and amortization	633,250	785,054	834,802	802,21
Accounts receivable	13,026,294	10,804,115	3,249,488	9,628,07
Merchandise inventories	12,176,226	10,019,604	8,866,276	8,678,69
Working capital	21,213,852	18,286,704	16,595,316	16,621,03
Properties, net	4,572,137	4,180,858	4,539,951	4,873,74
Total assets	31,685,664	27,440,462	26,775,009	26,109,27
Long-term debt	6,000,000	6,000,000	6,440,000	6,880,00
Stockholders' equity	16,594,730	16,212,781	15,696,893	15,323,78
Per common share	23.63	23.15	22.45	21.8

At year end:

Shareholders, common stock	1,917	1,994	2,000	2,13
Employees	2,467	2,200	2,093	2,05
Stores in operation	11	9	9	

Rhodes